

**ASSOCIATION OF LOUISIANA
ELECTRIC COOPERATIVES, INC.**

DECEMBER 31, 2009 AND 2008

BATON ROUGE, LOUISIANA

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 6/9/10

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2322 Tremont Drive • Baton Rouge, LA 70809
178 Del Orleans Avenue, Suite C • Denham Springs, LA 70726
Phone: 225.928.4770 • Fax: 225.926.0945
www.htbcpa.com

May 14, 2010

Independent Auditor's Report

Board of Directors
Association of Louisiana Electric
Cooperatives, Inc.
Baton Rouge, Louisiana

We have audited the accompanying Statements of Financial Position of the Association of Louisiana Electric Cooperatives, Inc. (a not-for-profit organization) as of December 31, 2009 and 2008, and the related Statements of Activities, Changes in Net Assets, and Cash Flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association of Louisiana Electric Cooperatives, Inc. as of December 31, 2009 and 2008, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedules of Expenses is presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

Hannis T. Bourgeois, LLP

ASSOCIATION OF LOUISIANA ELECTRIC COOPERATIVES, INC.

STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2009 AND 2008

	<u>ASSETS</u>	
	<u>2009</u>	<u>(Restated) 2008</u>
Current Assets:		
Cash	\$ 119,042	\$ 84,601
Accounts Receivable - Members	8,929	44,163
Accounts Receivable - Advertisements	23,301	27,941
Other Receivables	21,671	18,721
Prepaid Expenses	8,904	5,140
Prepaid Insurance	<u>18,530</u>	<u>14,017</u>
Total Current Assets	200,377	194,583
Property and Equipment:		
Buildings	471,823	444,690
Equipment	98,440	98,440
Office Furniture and Fixtures	74,469	67,616
Transportation Equipment	<u>250,897</u>	<u>234,993</u>
	895,629	845,739
Less: Allowance for Depreciation	<u>(497,158)</u>	<u>(492,567)</u>
	398,471	353,172
Land	<u>41,757</u>	<u>41,757</u>
	<u>440,228</u>	<u>394,929</u>
Total Assets	<u><u>\$ 640,605</u></u>	<u><u>\$ 589,512</u></u>

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND NET ASSETS (DEFICIT)

	<u>2009</u>	<u>(Restated) 2008</u>
Current Liabilities:		
Accounts Payable	\$ 76,600	\$ 58,891
Current Portion of Long-Term Debt	56,643	44,312
Line of Credit - Cooperative Finance Corp.	47,000	70,000
Accrued Expenses	23,420	29,338
Other Liabilities	13,694	12,195
Deferred Revenue	<u>1,725</u>	<u>-</u>
Total Current Liabilities	219,082	214,736
Long-Term Liabilities:		
Long-Term Debt	280,351	229,612
Accrued Compensated Absences	127,543	139,568
Accrued Benefit Obligation	<u>32,213</u>	<u>30,244</u>
	440,107	399,424
Net Assets (Deficit):		
Unrestricted	(18,584)	(27,561)
Temporarily Restricted	<u>-</u>	<u>2,913</u>
	<u>(18,584)</u>	<u>(24,648)</u>
Total Liabilities and Net Assets	<u>\$ 640,605</u>	<u>\$ 589,512</u>

ASSOCIATION OF LOUISIANA ELECTRIC COOPERATIVES, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues:			
Operating:			
Assessments - Members	\$ 949,669	\$ -	\$ 949,669
Newspaper Sales - Members	700,066	-	700,066
Advertising Sales	132,043	-	132,043
Contribution - Louisiana Rural Electric Cooperative Insurance Pool	87,089	-	87,089
Contribution - Cooperative Finance Corporation	14,000	-	14,000
Interest and Dividends	84	-	84
Other Income	178,719	-	178,719
Net Assets Released from Restrictions	2,913	(2,913)	-
Total Revenues	<u>2,064,583</u>	<u>(2,913)</u>	<u>2,061,670</u>
Expenses:			
Hurricane Relief Distributions	2,913	-	2,913
Publication and Mailing Expense	495,469	-	495,469
Statewide and National Rural Electric Cooperative Association Meetings	31,050	-	31,050
Legislative Expense	53,858	-	53,858
Public Relations	28,679	-	28,679
General and Administrative	1,443,637	-	1,443,637
Total Expenses	<u>2,055,606</u>	<u>-</u>	<u>2,055,606</u>
Increase (Decrease) in Net Assets	<u><u>\$ 8,977</u></u>	<u><u>\$ (2,913)</u></u>	<u><u>\$ 6,064</u></u>

The accompanying notes are an integral part of these financial statements.

2008

(Restated) Unrestricted	Temporarily Restricted	(Restated) Total
\$ 949,669	\$ -	\$ 949,669
680,712	-	680,712
140,671	-	140,671
88,877	-	88,877
13,400	-	13,400
2,024	-	2,024
79,319	-	79,319
50,440	(50,440)	-
2,005,112	(50,440)	1,954,672
50,440	-	50,440
500,586	-	500,586
39,954	-	39,954
53,378	-	53,378
40,968	-	40,968
1,414,623	-	1,414,623
2,099,949	-	2,099,949
\$ (94,837)	\$ (50,440)	\$ (145,277)

ASSOCIATION OF LOUISIANA ELECTRIC COOPERATIVES, INC.

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Balance at January 1, 2008, as previously reported	\$ 155,324	\$ 53,353	\$ 208,677
Prior Period Adjustment	<u>(88,048)</u>	<u>-</u>	<u>(88,048)</u>
Balance at January 1, 2008, as restated	67,276	53,353	120,629
Increase (Decrease) in Net Assets, as restated in 2008	<u>(94,837)</u>	<u>(50,440)</u>	<u>(145,277)</u>
Balance at December 31, 2008, as restated	(27,561)	2,913	(24,648)
Increase (Decrease) in Net Assets in 2009	<u>8,977</u>	<u>(2,913)</u>	<u>6,064</u>
Balance at December 31, 2009	<u><u>\$ (18,584)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (18,584)</u></u>

The accompanying notes are an integral part of these financial statements.

ASSOCIATION OF LOUISIANA ELECTRIC COOPERATIVES, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>(Restated) 2008</u>
Cash Flows from Operating Activities:		
Increase (Decrease) in Net Assets	\$ 6,064	\$ (145,277)
Adjustments to Reconcile Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Bad Debt	10,835	2,679
Depreciation	79,082	77,756
(Gain) Loss on Sale of Assets	(11,588)	31,866
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables	26,089	531
(Increase) Decrease in Prepaid Insurance	(4,513)	(354)
(Increase) Decrease in Prepaid Expenses	(3,764)	5,619
Increase (Decrease) in Accounts Payable	17,709	(49,164)
Increase (Decrease) in Accrued Compensated Absences	(12,025)	4,256
Increase (Decrease) in Accrued Benefit Obligation	1,969	1,969
Increase (Decrease) in Accrued Payroll and Payroll Taxes	(5,918)	11,906
Increase (Decrease) in Other Liabilities	1,499	(602)
Increase (Decrease) in Deferred Revenue	1,725	-
Net Cash Provided by (Used in) Operating Activities	107,164	(58,815)
Cash Flows from Investing Activities:		
Purchase of Property and Equipment	(112,793)	(33,321)
Net Cash Used in Investing Activities	(112,793)	(33,321)
Cash Flows from Financing Activities:		
Net Proceeds (Payments) on Line of Credit	(23,000)	10,000
Proceeds from Long-Term Debt	207,145	90,000
Repayment of Long-Term Debt	(144,075)	(46,769)
Net Cash Provided by Financing Activities	40,070	53,231
Net Increase (Decrease) in Cash and Cash Equivalents	34,441	(38,905)
Cash and Cash Equivalents - Beginning of Year	84,601	123,506
Cash and Cash Equivalents - End of Year	\$ 119,042	\$ 84,601
Supplemental Disclosures of Cash Flow Information:		
Cash Payments for Interest	\$ 16,705	\$ 18,250

The accompanying notes are an integral part of these financial statements.

ASSOCIATION OF LOUISIANA ELECTRIC COOPERATIVES, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

Note 1 - Summary of Significant Accounting Policies -

Organization and Programs

The Association of Louisiana Electric Cooperatives, Inc. (the Association) is a statewide trade association whose major programs include legislative and governmental representation, publication of the Louisiana Country Newspaper, and safety training. Membership dues and newspaper sales are the major sources of revenue.

Accounting Method

The financial statements of the Association have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Revenues and expenses are recorded on the accrual basis. Revenues received for future dues, subscriptions, and conferences are deferred until the applicable year.

Basis of Presentation

The Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Association does not have any permanently restricted net assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of cash flows, the Association considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Uncollectible accounts receivable are charged directly against net assets when they are determined to be uncollectible. Use of this method does not result in a material difference from the valuation method required by generally accepted accounting principles.

Contributions

Contributions are generally recorded upon receipt, unless evidence or an unconditional promise to give has been received. Unconditional promises to give that are expected to be collected in future years are recorded at the present value for the amounts expected to be collected. Conditional promises to give are not included as support until such time as the conditions are substantially met. All contributions are considered available for unrestricted use unless specifically restricted by the donor.

Net Assets

The Association classifies assets into three categories: unrestricted, temporarily restricted and permanently restricted. All net assets are considered to be available for unrestricted use unless specifically restricted by the donor or by law. Temporarily restricted net assets include contributions with temporary, donor-imposed time or purpose restrictions. Temporarily restricted net assets become unrestricted and are reported in the statement of activities as net assets released from restrictions when the time restrictions expire or the contributions are used for the restricted purpose. Permanently restricted net assets include contributions with donor-imposed restrictions requiring resources to be maintained in perpetuity, but permitting use of all or part of the investment income earned on the contributions.

Concentration of Credit Risk

At various times during the year, cash on deposit with one banking institution may exceed the amounts insured by the Federal Deposit Insurance Corporation. Management monitors the financial condition of the institution on a regular basis, along with their balances in cash to minimize this potential risk.

Concentration of credit risk with respect to accounts receivable is limited due to the wide variety of members. As a result, the Association does not consider itself to have any significant concentration of credit risk.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. These reclassifications have no effect on prior year net assets.

Property and Equipment

Fixed assets are stated at cost. Depreciation is calculated using straight-line and declining balance methods over the useful lives of the assets as follows:

Buildings	40 years
Office Furniture and Fixtures	5 to 10 years
Equipment	5 years
Automobiles	5 years

A summary of fixed asset classification at December 31, 2009 is as follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Land	\$ 41,757	\$ -	\$ 41,757
Buildings	471,823	(305,671)	166,152
Equipment	98,440	(57,281)	41,159
Office Furniture and Fixtures	74,469	(60,317)	14,152
Transportation Equipment	250,897	(73,889)	177,008
	<u>\$ 937,386</u>	<u>\$ (497,158)</u>	<u>\$ 440,228</u>

A summary of fixed asset classification at December 31, 2008 is as follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Land	\$ 41,757	\$ -	\$ 41,757
Buildings	444,690	(284,309)	160,381
Equipment	98,440	(49,518)	48,922
Office Furniture and Fixtures	67,616	(54,758)	12,858
Transportation Equipment	234,993	(103,982)	131,011
	<u>\$ 887,496</u>	<u>\$ (492,567)</u>	<u>\$ 394,929</u>

Income Taxes

The Association is a qualified not-for-profit organization and is exempt from income taxes under Internal Revenue Code 501(c) (6). With few exceptions, the Association is no longer subject to federal or state examinations by tax authorities for the years before 2006.

Compensated Absences

Employees of the Association earn vacation and sick pay in varying amounts according to years of service and subject to maximum limitations. The Association records the expense as incurred. Accrued compensated absences balances at December 31, 2009 and 2008 amounted to \$127,543 and \$139,568, respectively.

Note 2 - Long-Term Debt -

Long-Term Debt at December 31, 2009 and 2008, is detailed as follows:

	<u>2009</u>	<u>2008</u>
Capital One, due March 2009, interest of 4.99%, payable \$418 monthly, secured by vehicle.	\$ -	\$ 1,244
Capital One, due March 2010, interest of 4.99%, payable \$562 monthly, secured by vehicle.	-	8,160
Capital One, due June 2010, interest of 5.64%, payable \$447 monthly, secured by vehicle.	-	8,096
ALEC Credit Union, due September 2010, interest of 5.50%, payable \$373 monthly, secured by vehicle.	3,285	7,459
ALEC Credit Union, due December 2011, interest of 6.00%, payable \$522 monthly, secured by vehicle.	11,783	17,166
CFC, due November 2017, interest of 6.35%, payable \$1,384 quarterly, secured by property	34,504	37,718
CFC, due November 2017, interest of 6.35%, payable \$1,729 quarterly, secured by property	43,130	47,148
GMAC, due January 2013, interest of 0.00%, payable \$401 monthly, secured by vehicle.	14,819	19,626
GMAC, due February 2013, interest of 0.00%, payable \$425 monthly, secured by vehicle.	15,724	20,823
GMAC, due December 2012, interest of 6.99%, payable \$519 monthly, secured by vehicle.	16,810	21,678
NRECA, due January 2017, interest of 8.00%, payable \$9,525 annually, unsecured	-	84,806
CFC, due November 2017, interest of 4.95%, payable \$863 quarterly, secured by property	22,355	-
CFC, due November 2017, interest of 6.25%, payable \$440 quarterly, secured by property	11,000	-
ALEC Credit Union, due November 2014, interest of 4.50%, payable \$493 monthly, secured by vehicle.	25,698	-
GMAC, due October 2014, interest of 6.64%, payable \$537 monthly, secured by vehicle.	26,591	-

(CONTINUED)

	<u>2009</u>	<u>2008</u>
GMAC, due May 2014, interest of 0.00%, payable \$560 monthly, secured by vehicle.	29,681	-
CFC, due November 2022, variable interest, payable \$2,195 quarterly, unsecured	<u>81,614</u>	<u>-</u>
	336,994	273,924
Less Current Maturities	<u>(56,643)</u>	<u>(44,312)</u>
	<u>\$ 280,351</u>	<u>\$ 229,612</u>

Following are the contractual maturities of long-term debt:

2011	\$ 58,036
2012	50,954
2013	37,556
2014	32,528
2015 and later	<u>101,277</u>
	<u>\$ 280,351</u>

Note 3 - Line of Credit -

The Association has a \$100,000 line of credit with the Cooperative Finance Corporation which is secured by accounts receivable and is due March 2011. The balance on the line of credit at December 31, 2009 and 2008 was \$47,000 and \$70,000, respectively. The interest rate at December 31, 2009 was 4.25%.

Note 4 - Operating Leases -

The Association leases equipment under a non-cancelable lease. The monthly payment under this lease is \$900 and expires September 2012.

Future minimum annual payments under the above lease is as follows:

2010	\$ 10,798
2011	10,798
2012	<u>8,099</u>
	<u>\$ 29,695</u>

Note 5 - Retirement Plan -

The Association participates in the National Rural Electric Cooperative Association (NRECA) pension plan for all of its employees and incurs pension expense in an amount equal to its contributions to the plan. Pension expense for the years ended December 31, 2009 and 2008 was \$149,499 and \$138,387, respectively, which is included in employee benefits in the Schedules of Expenses.

In this master multi-employer plan, which is available to all members of the NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual employers. The plan has been approved by the Internal Revenue Service.

The Association also participates in the NRECA savings plan in which the Association will match contributions made by eligible employees up to 5%. The Association's expense for this plan was \$29,418 and \$29,595 in 2009 and 2008, respectively, which is included in employee benefits in the Schedules of Expenses.

Note 6 - Post Retirement Benefits -

The Association maintains a contributory defined benefit post retirement plan covering all employees who qualify as to age and length of service. Current policy is to expense the costs as they occur. Net expense, including service costs, interest costs and actuarial gains (losses) for the years ended December 31, 2009 and 2008 was \$1,969 for each year.

The actuarial present value of the expected post-retirement benefit obligation was determined by an actuary in a prior year and is the amount that results from applying actuarial assumptions to *historical claims - cost data to estimate future incurred claims costs per participant and to adjust* such estimates for the time value of money and the probability of payment between the valuation date and the expected date of payment. The amount accrued at December 31, 2009 and 2008 was \$32,213 and \$30,244, respectively.

For measurement purposes the following assumptions were made:

- A. Benefit Age 62 - Although an employee with 30 years service is eligible to retire, it is not mandatory.
- B. The relative attractiveness of the benefit upon retirement is uncertain. To account for the probability of declination of the benefit, utilization of the benefit was determined, in consultation with management, to be contingent on participation in the current program. Thus four current employees are identified as non-participants.
- C. The Association's Cost of Capital is approximately 5% per annum. Since the plan is unfunded, the interest portion of the plan cost is assumed to be at 5%.
- D. The 1994 Group Annuity Mortality Table (separately for male and female lives), has been assumed to apply for both pre and post-retirement mortality.
- E. The current population appears to be mature (average age 47) and has long service (average 15 years). This is consistent with relatively low rates of termination. For the probability of early termination, a light table designated ST-3 has been assumed.

The foregoing assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of the post retirement benefit obligation. No change was made in the assumptions for the year ended December 31, 2009.

Note 7 - Restrictions of Net Assets -

Temporarily restricted net assets at December 31, 2009 and 2008 are \$-0- and \$2,913, respectively. There are no permanently restricted assets.

During the years ended December 31, 2009 and 2008, net assets of \$2,913 and \$50,440, respectively, were released from donor restrictions for the purpose of hurricane relief, thereby satisfying the restricted purpose.

Note 8 - Prior Period Adjustment -

An error, resulting in the understatement of previously reported notes payable and changes in net assets of prior years, was corrected during 2009. The changes to unrestricted net assets as of December 31, 2008 are as follows:

Unrestricted Net Assets at January 1, 2008, as previously reported	\$ 155,324
Adjustments for:	
Understatement of Notes Payable	<u>(88,048)</u>
Balance at January 1, 2008, as restated	67,276
Increase (Decrease) in Net Assets, as restated in 2008	<u>(94,837)</u>
Balance at December 31, 2008, as restated	<u><u>\$ (27,561)</u></u>

The decrease in unrestricted net assets for the year ended December 31, 2008 decreased by \$3,242 as a result of this prior period adjustment.

Note 9 - Contingencies -

The Association is currently involved in litigation with a member cooperative. While the final outcome cannot be determined at this time, Management believes that the disposition or ultimate resolution of such proceedings will not have a significant adverse effect on the Association's financial statements.

Note 10 - Subsequent Events -

The Association evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through May 14, 2010, the date which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

ASSOCIATION OF LOUISIANA ELECTRIC COOPERATIVES, INC.

SCHEDULES OF EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

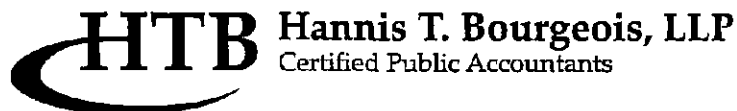
	<u>2009</u>	<u>2008</u>
Salaries	\$ 604,147	\$ 612,300
Attorney Fees	16,789	20,188
Auto Expenses	24,052	34,457
Bad Debt	10,835	2,679
Cost of Printing	229,733	228,077
Cost of Mailing Newspapers	265,736	272,509
Depreciation	79,082	77,756
Donations	800	1,500
Dues and Subscriptions	12,475	10,582
Employee Benefits	287,689	268,728
(Gain) Loss on Sale of Assets	(11,588)	31,866
General Insurance	33,205	35,075
General Legislation	53,858	53,378
General Public Relations	28,679	40,968
Hurricane Relief Distributions	2,913	50,440
Interest Expense	17,245	18,250
Meetings	56,447	48,155
Miscellaneous	9,010	7,028
NRECA and ALEC Educational Programs	-	960
Office Supplies	20,630	28,239
Other Taxes	5,499	6,429
Outside Accounting	25,250	23,900
Payroll Taxes	45,797	43,748
Photo Supplies	1,933	1,383
Postage - General Office	8,900	9,467
Professional Services	112,794	41,001
Repairs and Maintenance	23,494	20,211
Statewide and NRECA Meeting	31,050	38,994
Travel and Per Diem	16,675	19,695
Telephone and Answering Services	20,021	19,859
Training Films and Programs	7,630	10,319
Utilities	14,826	21,808
	<u>\$ 2,055,606</u>	<u>\$ 2,099,949</u>

See auditor's report on the supplementary schedule.

ASSOCIATION OF LOUISIANA
ELECTRIC COOPERATIVES

MANAGEMENT LETTER

DECEMBER 31, 2009



2322 Tremont Drive • Baton Rouge, LA 70809
178 Del Orleans Avenue, Suite C • Denham Springs, LA 70726
Phone: 225.928.4770 • Fax: 225.926.0945
www.htbcpa.com

May 14, 2010

To the Board of Directors
Association of Louisiana Electric Cooperatives
Baton Rouge, Louisiana

In planning and performing our audit of the financial statements of the Association of Louisiana Electric Cooperatives as of and for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Association's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal controls. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Association's internal control to be significant deficiencies:

Current Year Findings:

Fixed Assets

During the current year audit, we noted the following deficiency and inaccuracy regarding fixed assets:

Vehicles purchased in 2008 were depreciated using tax depreciation rates for luxury vehicles. As a result, depreciation expense was understated by approximately \$18,000.

We recommend that all assets be depreciated using straight line depreciation rates over the life of the assets. A periodic review of the fixed asset listing should be performed to ensure that depreciation expense is properly calculated and recorded.

Prior Period Adjustment

During our current year audit, it was noted that a note payable from a prior year had not been recorded on the general ledger of the Association. As a result, a prior period adjustment was made to record the note payable and the financial statements for the year ended December 31, 2008 were restated for this adjustment.

We recommend that procedures be put in place to ensure that all obligations are recorded at the time of they are initiated. We also recommend establishing a notes payable register and maintaining it on a current basis. The register would include pertinent data about each open note payable, such as date, amount, payee, maturity dates, interest rate, collateral, and payment history with respect to principal and interest. In addition, copies of paid and unpaid notes could be included in the register. As a control factor, unpaid principal amounts per the register should be reconciled on a periodic basis to the general ledger and there should be a periodic review of notes payables schedules compared to the payments scheduled.

In addition to the significant deficiencies discussed above, the following represents additional comments for management's consideration:

Cash

During our audit of cash, we noted two checks with stop payment orders still listed as outstanding checks. The original check and the re-issued check had both been recorded on the general ledger thereby restating expenses. We recommend that checks and other un-cleared reconciling items that are over six months old be investigated and removed from the bank reconciliation if applicable. Research should be done periodically to eliminate large numbers of old items being carried from month to month.

Accounts Receivable

During our audit of accounts receivable – advertising, we noted that no monthly or other regular schedule of accounts receivable is prepared, in which the accounts are analyzed and categorized by age. We recommend that such a schedule be prepared periodically, to serve as a basis for the investigation of possible errors and the scrutinizing and investigation of accounts which have become old and doubtful of collection unless prompt collection efforts are taken.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with management and staff, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended for the use of the management and board of directors of the Association of Electric Cooperatives and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Hannis T. Bourgeois, LLP